



# Romanian Federation of Local Authorities

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## Project Proposal

<b>Title:</b>	<b>Local Government Borrowing</b>
<b>Overall goal:</b>	<b>Improved capital investments in SEE countries</b>
<b>Responsibility:</b>	<b>Romanian Federation of Local Authorities – FALR, in the framework of the NALAS TF on FD, hosted by NAMRB</b>

### Introduction:

The prospect of municipal borrowing has been the subject of very thoughtful debate within many NALAS Member Associations over the past several years. Local government borrowing is still a relatively new phenomenon in South and Eastern Europe. The fact that there has been very little municipal borrowing to-date gives member countries the time to put in place the legal framework to ensure the development of a sound credit system. The primary obstacle holding back the use of municipal credit has been largely on the demand side (municipalities' readiness to borrow) and not on the supply side (availability of funds to lend within financial institutions). The poor financial condition of most municipalities has made them not credit-worthy. The most typical forms of financing capital investments are intergovernmental fiscal transfers and subsidies, which have decreased the local interest in borrowing and hence it has held back the development of the credit market.

There is a need for technical assistance in the development of the process of issuing debt; the necessary documentation (feasibility studies, audits, disclosure documents); the parties and their roles (issuer, underwriter, financial advisor, attorneys etc.); and the procedure and steps leading to the culmination of a successful financing. Also there is a need to have an overview of the current legislative frame development (what are legally allowed guarantees for the municipalities?), as well as credit rating acquisition (are there any credit agencies on the national markets?).

Large number of municipalities is facing significant problems relating to capital improvement planning. More challenging is the fact that many had never prepared such a plan. Furthermore, most of municipalities are faced with the challenge of remedying years of under-investment and under-maintenance of basic infrastructure and building stock.

This project intends to gather and share best experiences available in the region in debt financing and managing complex capital investment projects.

### Activities:

1. Forming the Expert team (composed of 2 Romanian experts and 1 International expert); NALAS, GTZ and FALR will develop Terms of Reference for these 3 experts. The Expert team's work will be supported by FALR project coordinator.
2. Develop a questionnaire in order to identify the associations with experiences in this field and interested to be involved in the project.
3. Gather information about the current situation on capital improvement planning and municipal borrowing. A review of existing legislation and field work will be done by country experts, supported by the Expert team that will develop country report outline).

Identify best practices and comparative experience from the region (to be done by the country experts, based on the instructions and format prepared by the Expert Team) Develop a Guidebook on Local Government Borrowing: Content of the Guidebook:

“Chapter I – Current Situation:

- ✓ Legal framework in the NALAS Member countries for municipal credit (forms, limitations, fiscal regulations)
- ✓ Various debt instruments utilized in financing of the capital investment projects of the local governments (municipal bonds, loans, commercial bank credits, etc.)
- ✓ Advantages and problems of specialized municipal banks

Chapter II – Critical steps of municipal borrowing (recommendations):

- ✓ Description of the application procedure (tips)

## Draft Project Proposal for **Local Borrowing / Capital budgeting**

- ✓ Decision on municipal debt issuance
- ✓ Procedures to get the central government agreement (if needed otherwise conditions should be legally determined),
- ✓ Local decision-making: selection of advisors, measuring borrowing capacity, collateral, selection of the bank, fiscal information flow, debt management practices

### Chapter III – Credit Worthiness Tools:

- ✓ The self credit analysis conceptual framework
- ✓ The credit model which determines the credit worthiness of a municipality”

### “Chapter IV – Best Practices:

- ✓ Best Practices from SEE countries in:
  - o building the municipal credit market for infrastructure finance
  - o planning, financing and implementing a major capital investment project”

The Chapters 1, 2 and 3 will be prepared by the Expert Team, based on the inputs provided by the country experts, while the Expert Team will develop the chapter 4 using the case studies prepared by country experts

4. Test the guidebook at the workshop attended by the TF FD members.
5. Finalise the draft and produce the Guide. Translate, print the publication and display at the NALAS and National Associations website.
6. Presentation of the Guide at the NALAS General Assembly or other important official event of NALAS).

### **Outputs:**

- Consolidated overview of the current municipal debt legislation framework within NALAS MA countries that includes all elements, which contribute to the development of municipal capital markets.
- A guide for borrowing that include matching priorities with funding needs and sources, capital project timeframes, and detailed project financing plans.

### **Use of output:**

- The overview of the current legislation in the region will have specific policy implications for different countries. NALAS MAs will follow up with initiatives to improve legislation accordingly.

Indicator: At least 3 NALAS Member Association have discussed at the level of their Steering Committees or commissions the possibility to initiate changes in the debt legislation

- NALAS Member Associations will deliver the Guide to their Municipalities for their use and will organize follow up capacity building activities.

Indicator: Number of Local Authorities who have used the tools of the Guidebook.

### **Outcome (direct benefit):**

- Overview on the borrowing regulations and practice of NALAS member countries is available.

Indicator: Borrowing regulations and practice are examined and summarized in at least 7 NALAS member countries.

- Debt legislation of NALAS member countries is improved.

Indicator: a base for these improvements is provided through this Guide.

- Municipalities are guided on how to initiate municipal investment programs utilizing credit instruments in a way that avoids the trap of excessive indebtedness.

Indicator: Number and scale of national government bailouts and municipal bankruptcies are decreasing (not possible to be measured during the project implementation period).

### **Impact (Indirect Benefit):**

- Local Authorities are enabled to improve the management of their financial resources and raise own source revenues as an important factor in determining the allocation of intergovernmental grants
- Improved municipal creditworthiness and financial standing
- Municipalities are prepared to enter the credit market and strengthen local business environment
- Municipalities capable of engage in capital improvement planning using NALAS Guide
- Availability of a local credit market helps municipalities play a larger role in deciding on and implementing local capital investments.

**Time table \*)**

	Activity	Responsible**	Month 1*)	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
1.	Form the Project Team	NALAS and FALR												
2.	Develop and fill in the questionnaire	Experts' team country experts												
3.	Collect information about the current situation on capital improvement planning and municipal borrowing	Experts' team country experts												
4.	Develop the format and the case studies	Experts' team country experts												
5.	Develop the first 3 Guide chapters	Experts' team												
6.	Finalize the Guide chapter 4	Experts' team												
7.	Test the Guide	Experts' team NALAS TF FD												
8.	Finalize the Guide	Experts' team												
9.	Presentation at one of the NALAS events (General Assembly)	NALAS FALR												

\*) Proposed date for starting the project – **August 2008.**

\*\*) FALR and the FALR Project Coordinator, supported by NALAS Secretariat, are responsible for the overall management of the project.

